FAST-Infra

Open-sourced Managed Co-Lending Portfolio Programme (OMCPP)

Overview

The proposed approach is an extension of the existing Managed Co-Lending Portfolio Program (MCPP), the syndications platform for debt investments. The approach aims to increase the pool of available financing in sustainable infrastructure in emerging markets, by allowing (1) multiple development banks to originate deals with pre-determined sustainability/ESG criteria and (2) multiple investors to participate in the platform.

MCPP is an innovative solution offered by the International Finance Corporation (IFC), which provides investors with a platform for participation in emerging market projects that address development needs and reduce poverty. MCPP enables IFC to provide larger financing packages than it could from its own account and increase the pool of financing available for achieving development goals. However, the MCPP structure is fairly closed in nature (i.e., bilateral between IFC and one or several investors), with a "blind pool" approach whereby investors take exposure in IFC's diversified portfolio of emerging market loans. The proposed structure targets a more open platform with various sources of origination (mostly regional development banks) and investors (e.g. insurance companies or sovereign wealth funds) with pre-determined investment criteria to allow faster, larger distribution of risk, possibly across a broader risk spectrum.

An appealing feature of the MCPP is that investors can trust the IFC's strong understanding of emerging markets, high due diligence and sustainability standards. They can also benefit from the preferred creditor status of the IFC. To ensure investors can trust the risk and standards of multiple development banks, a common definition/label of sustainable infrastructure must be determined. Through the work from FAST-Infra Working Group 1, a sustainable infrastructure label can be agreed and used, in addition to their own origination standards, as the fundamental principles for all participating development banks.

Given the multiple external parties in this structure, an intermediary entity will act as facilitator to manage the portfolio of infrastructure financing and match funding requirements with specific investor criteria. The nature of the facilitator will be determined based on feedback from the proof of concept participants - possible options include a digital market place and a separate legal entity.

Once this structure is established, sustainable infrastructure projects can then be scaled-up across the globe, with a particular focus on emerging markets. Not only will this platform enable greater capacity for investment in sustainable infrastructure projects globally (especially 'greenfield' projects), but it will also provide an entry point for investors into new emerging markets, via trusted organisations. It will help to 'label' sustainable infrastructure projects and understand which characteristics are most appealing to investors across the globe.

Description

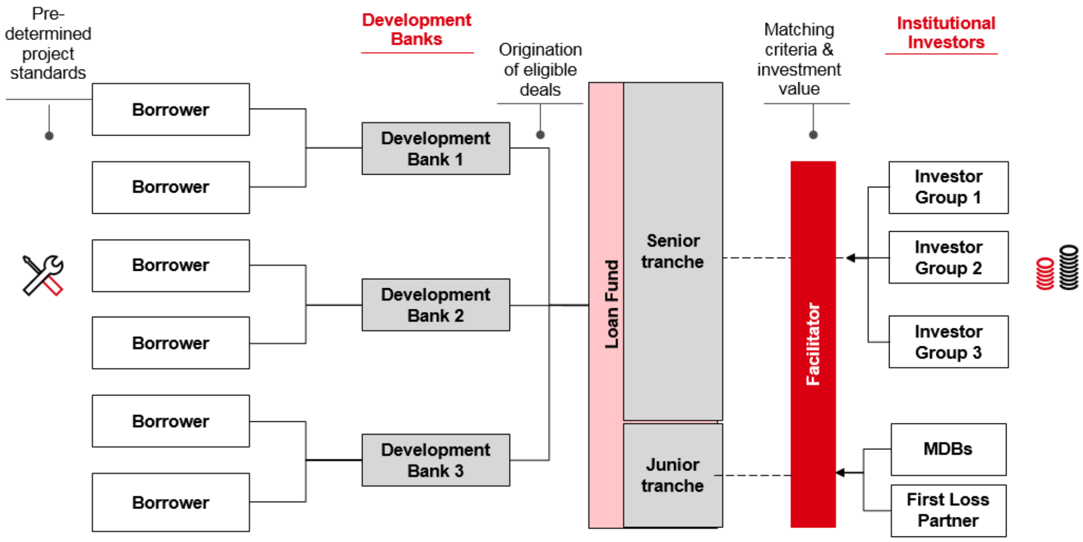
The proposal, similar to MCPP, is to create a loan portfolio for investors to fund the various projects originated by various development banks globally, based on eligibility criteria and concentration limits set out in the administration agreement. Investors participate with funding or risk-sharing for borrowers on the same terms as the development bank (e.g. IFC), and the facilitator manages investor exposure in line with decisions taken for each originator's own account. The platform will provide investors, grouped by corresponding criteria, with participation in a diversified portfolio of emerging market projects. Portfolios could offer a certain degree of geographic and sector customization to meet investor needs. All investments are commercially structured and designed to address development needs.

In this structure, various development banks will take the origination role, as highly trusted organizations, with all funding following pre-determined ESG-related standards. This approach will provide investors with direct access to the portfolio of loans originated by the development banks in emerging markets, to which they may have little to no prior knowledge or affiliation. Depending on the eligibility, the portfolio may be very diverse not only geographically but also by sector.

The transaction will be structured as a fixed income investment and investors will participate in the Senior tranche for the loan fund - eligible loans include senior infrastructure loans, with cash allocation of the loan income subject to formula and priority of the Senior Investors. Senior Investors are also allocated principle ahead of Junior Investors. Initial capital allocation is structured to ensure the senior tranche has investment grade characteristics. The existence of the junior tranche is considered to be one of the key success factors of MCPP. The junior tranche in OMCPP will be proportionally taken by participating development banks along with potential other first-loss partners [additional tiering in the liability structure of OMCPP may be considered depending on investors' risk appetite].

In addition to accessing a diversified loan portfolio, via regionally-focused development banks, the proposed structure (as illustrated below) will provide participants with better oversight of the specific projects in which they are investing, in terms of sector, geography, industry and timeline. For instance, 'Group 1' may have the criteria that they are only interested in Environmental and Social Sustainability projects in Latin America, with projects no longer than 10 years, while 'Group' 2 may prioritize both Social and Institutional Sustainability and longer dated assets across all Emerging Markets. Rather than an exclusive structure between IFC and an individual investor, the portfolio of loans originated by participating development banks will be managed and matched by a facilitator (exact nature to be determined) to respective criteria of investor groups. This structure allows fast offloading of risk and freeing up of balance sheet capacity for further sustainable infrastructure development. The facilitator is mandated to control the quality and has the right to refuse a limited number of underlying loans. Also, facilitator is recommended to put down a certain amount of investment.

Figure 1: Proposal structure - MMCPP



Main Stakeholders

- Major development banks (e.g. IFC, ADB, AfDB, IADB etc.) will originate eligible deals for the loan fund, and securitise this debt to free up balance sheet capacity
- The facilitator is managing the relationship between MDBs and investors (defined below)
- Senior subordinated Note investors: Institutional Investors (i.e. insurance companies)
- Junior Subordinated Note/Equity investors: MDBs, Donors, etc.

Key Issue(s)/Considerations

MCPP current programs are bilateral in nature, between a single originator (IFC) and investor(s) eligible to participate in IFC's regions/standards. The proposed structure aims to open this platform to allow multiple originators and investors, but managing the various standards of these development banks and the corresponding eligibility of investors becomes more difficult. The importance of defining a 'label' for sustainable infrastructure developments becomes even more crucial and this should be the focus of initial discussion amongst participants in the proof of concept.

To match the loan fund requirements with investor criteria, a facilitator will be required. The role of the facilitator will involve (i) ensuring the multilateral development banks adhere to pre-determined criteria for sustainable projects (ii) understanding, prioritising and grouping the criteria of investors (iii) acting as the intermediary between originator and investor and providing further details on development projects where required (e.g. answering questions on further funding requirements, timelines and providing contacts where necessary – a "blind pool" concept) (iv) matching the 'pot' of investment from each group, with various projects in the loan fund *[details about the role of the facilitator in work-out situations to be added]*. The nature of the facilitator is yet to be determined, but possible options include (i) create a separate legal entity to manage the four responsibilities mentioned above (ii) establish a digital 'market place' on which investors can post their criteria and automatically be matched with existing projects (loans). The market place may also require originators to provide information as evidence that their projects are satisfying the principle characteristics of a sustainable development (which investors can view themselves).

Next Steps

By leveraging the FAST-Infra membership expertise, next steps are to gain feedback on the structure of this proposal and its feasibility. If feedback is positive, the nature of the facilitator and the allocation of senior/junior tranches must be agreed. The ultimate aim is to find willing investors and development banks to conduct a proof of concept. Through these discussions, the definition of sustainable infrastructure will be further defined and progress towards a global 'label' of such development projects will be made.